The NFIB Foundation

Quarterly Economic Report for Small Business

Summer 1990

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Prepared by
The NFIB Foundation

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NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 68)

The 68th in series of quarterly economic reports based on survey data obtained during July 1990 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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ISSN #0362-3548

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SUMMARY OF RESULTS

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The Index of Small Business Optimism, an excellent indicator of change in the Gross National Product (GNP), fell to its lowest point since the 1981-82 recession. It reflected the broad-base economic weakness now permeating the small business sector. July's small business data found an economy teetering on the brink of recession. Moreover, the Iraqi invasion of Kuwait in early August and the subsequent rise in oil prices came too late to affect their calculations. While it is possible the economy can rebound once again, small business owners were not optimistic.

The second quarter held up reasonably well. No area of performance fell sharply. The so-called "credit crunch" continued to find more voice among the press than among small business owners. Inventories appeared in reasonably good shape. Capital expenditures were steady. Selling prices rose less frequently than earlier in the year, though escalating compensation costs helped create an earnings squeeze. Yet, the quarter's Index of Small Business Sales challenged the expansion low. Earnings were weak. The average number of jobs lost in firms reporting net loses was extraordinarily large. Though current job openings remained surprisingly strong, the demand for unskilled labor fell. Thus, activity in the quarter was mixed with unhealthy signs plentiful.

The third quarter will be poorer than the second. The outlook was pessimistic both on a relative and an absolute basis - nothing extreme, but pessimistic. Sales expectations were among expansion lows. Small business owners believed credit would become more difficult to get whatever their current experiences. Plans to make capital expenditures, a strength over the last several quarters, declined on due to slower sales, poorer earnings and credit fears.

This report is based on a random sample survey of NFIB members conducted during the month of July, 1990. Two thousand one hundred and fifty-eight (2,158) small and independent business owners returned usable questionnaires from the 7,202 mailed for a 30.0 percent response rate. A profile of respondents is located in the Appendix.

Job growth was forecast to be marginal though it may prove optimistic. Planned inventory increases was the only positive element.

While virtually all aspects of July's small business data were negative, an overly pessimistic conclusion could be too easily reached. The direction is clear. Conditions are declining. They have been declining throughout the first half of the year. The level of activity is not glowing, either. But, the level is still not bumping up against a recession, though continued deterioration would make that inevitable.

Outlook

The small business outlook in July continued to be weak. While not at levels typically accompanying recessions, few small business owners looked favorably on current conditions or their immediate prospects. The encouraging aspect was that July's figures were no worse, and even a bit better, than one year ago. However, the overall trend, ignoring the usual "ups and downs," began moving lower in the 1984-85 period and continues. But the decline of the outlook indicators has been tempered by the rate of their fall. The decline in late 1980s has been more gradual than the rapid decline of the late 1970s which resulted in recession.

More small business owners believed general business conditions would deteriorate in the next three to six months than believed they would improve. Seventeen (17) percent expected

TABLE 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
MUCH BETTER	2	1	1		1	2	2	1
BETTER	18	15	14		19	22	20	16
SAME	59	54	58		60	57	57	53
WORSE	13	18	19		12	13	13	20
MUCH WORSE	1	3	2		1	1	1	2
DON'T KNOW	6	8	6		6	5	6	7
NO ANSWER	1	1	*		1	*	1	1
TOTAL	100	100	100		100	100	100	100

conditions to get "better;" 22 percent expected them to get "worse" (Table 1). July was the poorest monthly showing in a year.

Assessment of the climate for small business expansion yielded the same result. Just 14 percent thought current conditions conducive for small business expansion (Table 2). July's number represented a three percentage point tumble from June, a level which had been typical over the last 12 months. Yet, only twice within the last four and one-half years has the assessment been as bad or worse - in February, 1990, and February, 1988. However, the climate for small business expansion would have to fall to three percent before it could match the survey record low recorded in April, 1980.

The reasons for owners' views on the expansion climate were similar to those provided in April. General economic conditions and sales prospects dominated whether the view was positive, negative or uncertain. The major change registered in the last three months was the reversal in positions of economic conditions and sales prospects among those with a positive view. Sales

TABLE 2

CLIMATE FOR SMALL-BUSINESS EXPANSION IN NEXT QUARTER

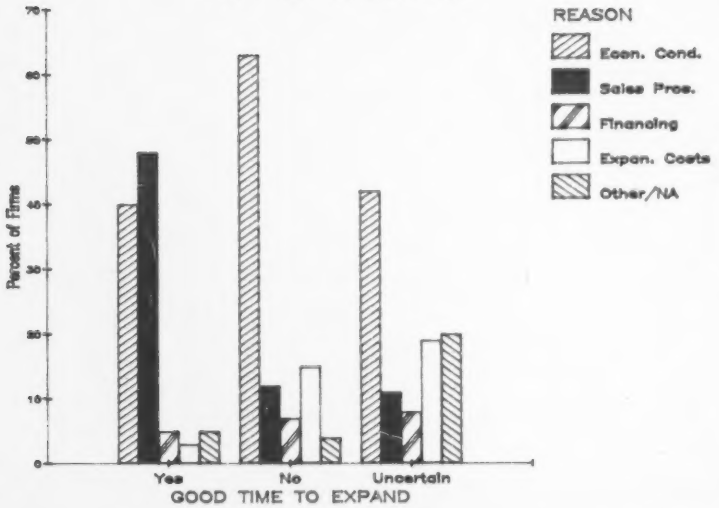
GOOD TIME TO EXPAND	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
YES	20	19	17		15	15	17	14
NO	42	43	45		46	50	46	54
UNCERTAIN	37	37	37		38	34	36	32
NO ANSWER	1	1	1		1	1	1	*
TOTAL	100	100	100		100	100	100	100

prospects was cited more frequently in July than economic conditions, a reversal of the normal order (Chart 1). This suggests that a favorable outlook is increasingly tied to real situations or events rather than just a good feeling. Reliance on the more concrete rather than the more abstract is another indication that small business owners are losing confidence in the general train of events.

Few owners tied their view of the climate to financing conditions. Nearly twice as many among those holding negative and uncertain views cited expansion costs as cited financing. In fact, those offering financing as the primary reason for their favorable view were just two percentage points fewer than the proportion of

CHART 1

"GOOD TIME TO EXPAND" BY REASON
FOR VIEW OF EXPANSION



negatives who cited money problems. These data provide no evidence that problems in the small business sector are related to either the availability or cost of credit (see, Credit Conditions).

Credit Conditions

Credit conditions continued to deteriorate. But the deterioration proved relatively modest on a national scale. The cost of credit slid. Availability rather than price was the problem where a problem existed. However, availability issues seemed confined to specific parts of the country. The parts of the country affected did grow from April. The problem in July no longer affected just New England and the West South Central states. It had spread down the Atlantic seaboard and spilled into the central parts of the country. Yet, the quantitative evidence did not support the alarmist views frequently expressed.

A net 10 percent of survey respondents reported credit more difficult to obtain in the last three months than in the prior three. One percent reported loans "easier" and 11 percent reported them "harder" (Table 3). July's number was a two percentage point increase from April and four percentage points from January. While the direction of these data was clear, the pace of decline was moderate.

Availability was not unusually difficult on an historical basis. The record high for the series was a net 0 percent recorded

in January and April, 1977. The record low was a net -32 percent recorded in April, 1980. Because of the aberrant nature of early, 1980, a more appropriate comparative number was the next to record low of -19 percent (October, 1974, and October, 1979). Thus, July's -10 percent falls in the middle of its historic boundaries.

TABLE 3

CURRENT AVAILABILITY OF LOANS
COMPARED TO AVAILABILITY IN PRIOR QUARTER

LOAN AVAILABILITY	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
EASIER	2	1	1		1	1	1	1
SAME	27	25	25		26	25	24	22
HARDER	8	7	8		7	7	9	11
DON'T KNOW	1	2	1		2	3	1	1
DON'T BORROW; NO ANSWER	62	65	65		64	64	65	64
TOTAL	100	100	100		100	100	100	100

Availability numbers are based only on respondents who are "regular borrowers," i.e., those who report themselves as borrowing once or more a quarter. Thirty-six (36) percent were regular borrowers in July continuing small business's weak demand for debt capital. With the exception of the first quarter of 1989, fewer than 40 percent have considered themselves regular borrowers since 1986. The proportion borrowing regularly has not been consistently over 40 percent since 1983. This weak demand has taken some of the sting out of any bank tightening that has occurred. However, it should be pointed out that a -10 percent of regular borrowers at the current rate of regular borrowing implies -30 percent among borrowers only.

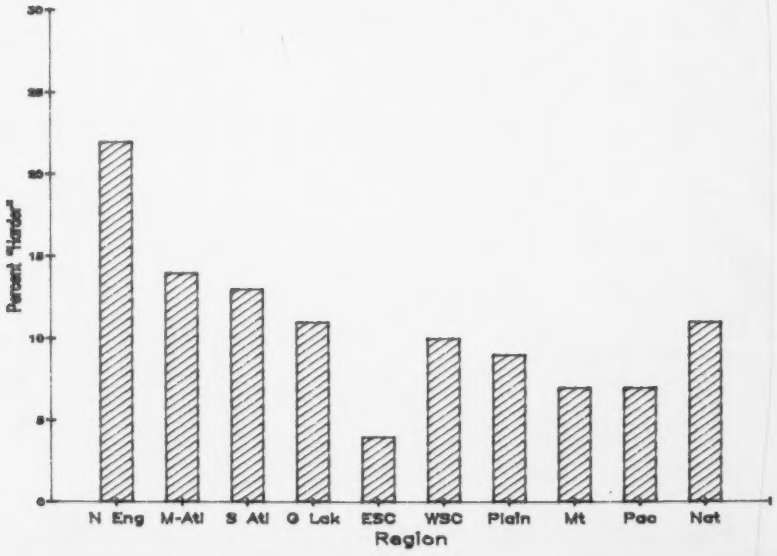
Credit availability proved highly regional. As a rule, the farther west, the more favorable conditions were. Chart 2 illustrates. New England has been the region most seriously impacted. Twenty-two (22) percent or 56 percent of all regular borrowers in the region reported credit harder to obtain in the spring quarter than in the prior three months. Next in line was the Mid-Atlantic region at 14 percent, followed by the South Atlantic at 13 percent. The Pacific, Mountain and East South Central regions, the latter a geographic aberration, were the regions where credit availability was "easiest." Of note was the continued relative improvement in the situation of borrowers in the

West South Central region. Just 10 percent reported loans harder to get in July, fewer than the national average. Between 1986 and 1989, borrowers in the region were customarily more than twice as likely as the national average to report loans more difficult to obtain.

The price of short term business loans was virtually unchanged between the first quarter and the second. It declined a mere one-tenth of one percent, making the total decline three-tenths of one percent over the last six months (Table 4). The number who reported no change in interest rates in the preceding three months compared to the prior quarter reflected the overall stability of recent interest rates (Table 5). The number reporting no change from the prior quarter rose to 24 percent or two-thirds of all regular borrowers.

CHART 2

NET PERCENT REPORTING IT "HARDER"
TO GET A BUSINESS LOAN



Other survey data also showed no major problem with credit or finance. Just seven percent called "Interest Rates-Financing" their single most important problem (see, Single Most Important Problem). Just seven percent who thought the climate for small business expansion was not good attributed their view to financing; only nine percent who were uncertain pointed to it. Thus, the tenor of the entire survey, not just those questions directed specifically to financing, produced a composed assessment of credit conditions.

TABLE 4

INTEREST RATES PAID ON SHORT-TERM LOANS

INTEREST RATE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
UNDER 10%	9	4	1		1	1	1	1
10-12%	29	34	24		31	32	38	41
13-15%	6	7	17		12	14	12	11
16% OR MORE	3	2	2		5	3	3	2
PRIME +1	30	29	29		31	29	25	25
PRIME +2	20	20	23		18	17	18	18
PRIME +3 OR MORE	3	4	4		2	4	3	2
TOTAL	100	100	100		100	100	100	100
AVERAGE RATE (%)	10.6	11.2	12.8		12.6	12.2	12.0	11.9

Small business owners were growing more concerned about their financing needs. A net 11 percent expected credit conditions to deteriorate in the next three months (Table 6). July's assessment represented a three percentage point tumble from April and five from January. These expectations were in line with what owners currently in the market and did not appear alarmist. The series extremes were -40 percent recorded in April, 1980, (otherwise, -29 percent in October, 1979), and -1 percent in April, 1983.

Prices

Small business owners provided consumers and the economy good news on prices. Not only did the frequency of selling price increases continue to decline in July, but plans to raise prices in the next three months remained comparatively stable. The wild card was oil which was not a factor when July's small business data were collected.

Twenty-four (24) percent reported higher average selling prices in the last three months than in the prior three months (Table 7). July's report was three percentage points below June's level and six percentage points below April's. Each is a comparatively large decline in such a short period. In addition, the number reporting lower average selling prices rose two

percentage points (from both April and June) to 11 percent. The numbers are the most favorable, excepting November dips in each of the last two years, since late 1987. However, decline in the frequency of price increases could be at an end.

TABLE 5

CURRENT INTEREST RATES COMPARED TO
INTEREST RATES IN PRIOR QUARTER

RELATIVE INTEREST RATES	1977 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
MUCH HIGHER	1	*	1		1	*	1	*
HIGHER	18	17	14		9	7	8	8
SAME	16	15	12		18	21	21	24
LOWER	2	1	7		7	7	4	2
MUCH LOWER	*	*	*		*	*	*	*
DON'T KNOW	1	2	1		1	1	1	2
DON'T BORROW; NO ANSWER	62	65	65		64	64	65	64
TOTAL	100	100	100		100	100	100	100

TABLE 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO CURRENT QUARTER

	1987	1988	1989		1989	1990	1990	1990
EASIER	2	2	1		1	2	1	1
SAME	25	22	23		24	22	22	20
HARDER	8	8	8		7	8	9	12
DON'T KNOW	3	3	3		4	4	3	3
DON'T BORROW; NO ANSWER	62	65	65		64	64	65	64
TOTAL	100	100	100		100	100	100	100

Twenty-three (23) percent planned to raise prices in the next three months (Table 8). July's number represented a substantial improvement (seven percentage points) from January and a modest improvement (two percentage points) from April. However, July's data was a step backward from May and June. July plans were two percentage points higher than June's.

TABLE 7

CURRENT AVERAGE SELLING PRICES COMPARED TO
PRIOR QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
LOWER NOW	10	9	9		9	9	9	11
NO DIFFERENCE	62	58	59		61	59	59	63
HIGHER NOW	24	29	29		28	31	30	24
< 1%	1	1	1		1	*	1	*
1.0-1.9%	3	3	3		4	4	4	3
2.0-2.9%	3	5	5		5	5	5	4
3.0-3.9%	3	3	4		3	4	4	3
4.0-4.9%	3	4	4		4	5	4	4
5.0-7.9%	5	6	6		6	6	6	5
8.0-9.9%	2	1	1		1	2	1	1
10% OR MORE	3	5	4		3	4	3	3
NO ANSWER	1	1	1		1	1	2	1
NO ANSWER	4	4	3		2	1	2	2
TOTAL	100	100	100		100	100	100	100

Planned price increases have led actual price increases in the past (Chart 3). Over the last 12 months, the relationship has not been as smooth as in the prior three years, suggesting unexpected cost increases. Problems in the Middle East make price forecasting more difficult. However, small business owners have anticipated the underlying rate of inflation exceedingly well. Their price plans capture the magnitude and direction of inflation. Currently, their plans forecast no change.

TABLE 8

PLANNED PRICE CHANGES FOR THE NEXT QUARTER

PLANNED PRICE CHANGES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
LOWER	3	2	3		3	3	3	3
NO CHANGE	68	53	59		56	50	56	58
INCREASE	22	26	24		25	32	25	23
< 1%	1	*	*		1	1	1	1
1.0-1.9%	2	2	3		2	4	3	2
2.0-2.9%	4	3	4		4	5	5	4
3.0-3.9%	4	4	3		3	4	3	3
4.0-4.9%	2	4	3		4	5	3	3
5.0-7.9%	5	7	6		6	7	6	5
8.0-9.9%	1	2	1		1	1	1	1
10% OR MORE	2	3	3		3	3	2	3
DON'T KNOW	1	2	1		1	2	2	1
DON'T KNOW	13	14	12		14	13	14	15
NO ANSWER	4	5	2		2	2	2	1
TOTAL	100	100	100		100	100	100	100

Compensation

Despite fewer selling price increases, small business owners raised compensation in the second quarter with the greatest frequency since the series was instituted in 1984. They planned (hoped) to assume greater control over those increases and reduce their frequency in the next three months. However, the gap between plans and actual increases has been rising over the last two years. It has been particularly large between July plans and October outcomes.

Twenty-nine (29) percent of small business owners reported raising overall compensation in the last three months (Table 9). The average increase was 6.0 percent per firm increasing compensation and 1.7 percent across all firms. Both frequency and average increases were among the largest in the six and one-half year history of the series. These increases had an effect on the

CHART 3

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES

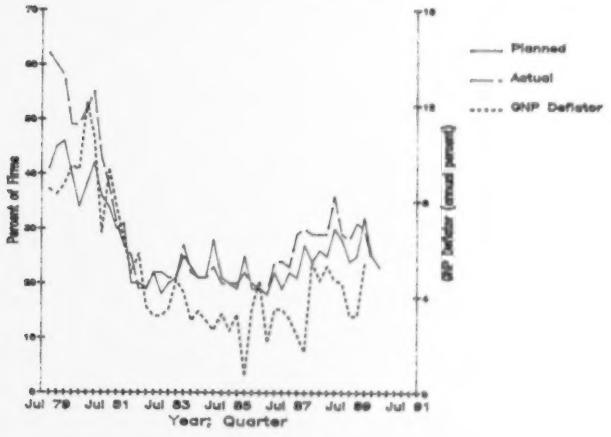


TABLE 9

CHANGE IN AVERAGE COMPENSATION OVER THE PRIOR QUARTER

COMPEN-SATION CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED	23	25	26		26	24	27	29
1-2%	3	3	4		4	3	3	4
3-4%	7	7	6		8	6	8	7
5-6%	7	8	9		9	7	9	9
7-8%	2	3	3		3	3	2	2
9-10%	2	2	3		2	3	2	3
OVER 10%	1	2	1		2	2	2	3
NO ANSWER	1	*	*		*	1	1	1
SAME	70	69	67		68	70	67	64
DECREASED	1	1	1		*	1	1	1
NO ANSWER	6	5	6		6	5	5	6
TOTAL	100	100	100		100	100	100	100

COMPEN-SATION CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED	23	25	26		26	24	27	29

AVERAGE INCREASE	%	%	%		%	%	%	%
FIRMS INCREASING	5.9	5.9	6.0		5.7	5.8	5.9	6.0
ALL FIRMS	1.4	1.5	1.5		1.5	1.4	1.6	1.7

bottom line as 14 percent of owners reporting lower earnings indicated the principal reason was labor costs (see, Earnings).

Part of the reason for the relatively large number of increases probably lies with the "escalator effect" from April's minimum wage hike. In those instances, owners gave raises to keep a wage differential throughout the workforce. Another reason is the increasing cost of employee benefits such as health insurance. In large and medium sized firms benefits have been rising much faster than wages. There is no reason to believe that the situation facing small business owners is anything but more severe. A possible third reason is tight labor markets at least for some types of employees. Rising unemployment and lower demand for labor would seem to argue against tight labor markets (see, Employment). Yet, they appear to be growing in at least some parts of the country (see, Single Most Important Problem).

Small business owners planned to reduce the frequency of overall compensation increases (Table 10). Seventeen (17) percent planned increases in the next three months. The average increase over all firms was less than 1.0 percent. However, in each of the last two July's, the gap between those planning to raise overall compensation and those who actually raised it was eight percentage points. If that pattern holds in 1990, the percent who would eventually raise average compensation in the third quarter would be 24 percent. That frequency of increase would be an improvement. It would place compensation increases on a par with those occurring in late 1987 and early 1988.

Sales

Small business sales held up remarkably well in the second quarter despite increasing economic sluggishness. Yet, with a single exception, sales in the quarter were the weakest since the last recession. Owners expected the lethargic pace to continue throughout the summer and into the fall, and little evidence existed to believe that they would not be correct.

TABLE 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER THE NEXT QUARTER

COMPEN-SATION CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASE	17	18	18		20	26	22	17
1-2%	2	1	2		2	2	2	2
3-4%	6	6	6		5	9	7	6
5-6%	5	6	6		7	9	8	7
7-8%	1	1	2		2	2	2	1
9-10%	1	2	1		2	2	1	1
OVER 10%	1	1	*		1	1	1	*
DON'T KNOW	1	1	*		1	1	1	*
NO ANSWER	*	*	1		*	*	*	*
SAME	69	67	69		65	61	63	70
DECREASE	1	1	1		1	1	1	1
DON'T KNOW	10	11	9		11	10	12	9
NO ANSWER	3	3	3		3	2	2	3
TOTAL	100	100	100		100	100	100	100

AVERAGE INCREASE	%	%	%		%	%	%	%
FIRMS INCREASING	5.6	5.8	5.6		5.6	5.5	5.5	5.4
ALL FIRMS	0.9	1.0	1.0		1.1	1.4	1.2	0.9

Thirty-seven (37) percent reported higher sales in the second quarter than in the first compared to 21 percent who reported them lower (Table 11). On a seasonally adjusted basis, July's number fell to its lowest level since July, 1986. The Index of Small Business Sales showed second quarter sales to be the first decline in three quarters (Chart 4). Though the sales numbers forecast no impending doom, 11 percent cited "Poor Sales" as their single most important problem (see, Single Most Important Problem).

TABLE 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR SALES VOLUME	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
MUCH HIGHER	4	4	3		2	3	4	3
HIGHER	34	36	36		31	29	27	34
ABOUT THE SAME	41	38	40		43	40	39	41
LOWER	17	18	17		20	24	25	18
MUCH LOWER	2	3	3		3	4	5	3
NO ANSWER	2	1	1		1	*	*	1
TOTAL	100	100	100		100	100	100	100

Sales expectations for the third quarter fell from the second and were lower than one year ago. Forty-three (43) expected real sales to increase in the next three months compared to the last three (Table 12). Sales have generally tracked sales expectations, though at a lower absolute level, indicating that the level of small business sales will probably not change very much in the next three to six months. That is not promising. Poor sales will hurt many small businesses badly and some they will crush.

Earnings

A sharp jump in the Index of Small Business Earnings last quarter cannot hide the longer term erosion in small business earnings (Chart 4). After recovery from the 1986 slow-down, earnings eroded putting small business owners in a the most uncomfortable position they have been in for nearly a decade. Further, the last twelve months have been the poorest since the last recession. July's data indicated that the decline continues.

While no lower than the numbers posted one year ago, July's earnings were comparatively weak. Weaker earnings and deteriorating sales (see, Sales) explain why plans to make capital expenditures (see, Capital Expenditures) and plans to increase labor forces (see, Employment) declined.

Twenty-four (24) percent reported earnings higher in the last three months than in the prior three; 31 reported the opposite occurring (Table 13).

TABLE 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
GO UP A LOT	8	8	6		7	7	11	6
GO UP A LITTLE	42	39	38		36	36	45	37
STAY THE SAME	31	30	32		27	28	25	32
GO DOWN A LITTLE	13	15	16		21	20	12	17
GO DOWN A LOT	2	3	3		5	5	3	3
DON'T KNOW	3	4	3		3	4	3	4
NO ANSWER	1	1	1		1	*	1	1
TOTAL	100	100	100		100	100	100	100

Sales volume, as usual, was the primary influence on any change in earnings (Table 14). However, rising and falling costs appeared to be a greater factor in the spring of 1990 than normal (see, Prices). Nine percent of those with higher earnings in the second quarter than in the first attributed them to higher prices and 6 percent attributed them to lower costs. Both represented increases over July one and two years ago. The same was true of those reporting lower earnings. Twenty-eight (28) percent cited increased factor costs as the primary reason. This number, too, was an increase from the prior three July's. Thus, with prices moving up and down depending on the product or service or vendor, price changes had multiple effects on earnings.

CHART 4

INDICES OF SMALL BUSINESS SALES
AND SMALL BUSINESS EARNINGS

TABLE 13

NET EARNINGS COMPARED TO PRIOR
QUARTER'S NET EARNINGS

NET EARNINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
MUCH HIGHER	1	2	1		1	1	2	2
HIGHER	25	25	25		22	18	19	22
SAME	43	41	41		44	43	41	43
LOWER	25	25	28		28	32	31	29
MUCH LOWER	3	4	4		4	5	6	3
NO ANSWER	3	3	1		1	1	1	1
TOTAL	100	100	100		100	100	100	100

TABLE 14

PRIMARY REASONS FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
SALES VOLUME	57	59	56		57	58	58	55
HIGHER PRICES	7	7	8		11	9	11	9
FACTOR COSTS*	6	1	4		7	5	4	6
SEASONALITY	21	22	27		18	20	19	25
OTHER; NA	9	11	5		7	8	8	5
TOTAL	100	100	100		100	100	100	100

REASON FOR LOWER NET EARNINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
SALES VOLUME	43	41	42		45	44	45	44
FACTOR COSTS*	25	26	27		27	22	19	28
SEASONALITY	13	13	15		15	23	21	14
OTHER; NA	19	20	16		13	11	15	14
TOTAL	100	100	100		100	100	100	100

** includes labor, material, and financing costs*

Employment

Small business employment activity held steady amid reports at the quarter's end of higher unemployment and fewer jobs. Little net change in operating small business employment has been recorded over the last year. Few small business owners thought conditions would change. But contrary to expectations, there were indications in July that some labor markets were getting tighter rather than easing. The most notable were compensation (see, Compensation) increases and labor costs (see, Single Most Important Problem).

Twenty-one (21) percent reported increasing net employment over the last three months compared to 13 percent who decreased it (Table 15). The number with net increases was about the same as the number that experienced them in each of the prior three spring quarters. The principal difference was the number reporting

declines and the size of those declines. Thirteen (13) percent reduced their workforces by a very large average of 6.2 employees per firm. The average net employment change per firm was +.36 employees, a typical non-recession second quarter. Yet, the size and frequency of the declines indicated more than the usual market turbulence.

The frequency of current job openings indicated that a demand for labor still existed. Twenty (20) reported that they had at least one current job opening (Table 16). The number represented

TABLE 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED	20	20	21		17	12	16	21
- SEASONAL	10	10	11		6	3	6	11
- NON-SEASONAL	10	10	10		11	9	10	10
DECREASED	11	10	11		15	18	15	13
- SEASONAL	3	2	2		5	9	5	4
- NON-SEASONAL	8	8	9		10	9	10	9
NO CHANGE	65	68	68		68	70	69	66
NO ANSWER	4	2	*		*	*	*	*
TOTAL	100	100	100		100	100	100	100

NUMBER OF EMPLOYEES	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASED (PER FIRM INCREASING)	3.8	3.9	4.2		3.3	3.3	4.7	3.8
DECREASED (PER FIRM DECREASING)	4.7	3.3	3.1		3.0	4.6	5.2	6.2
AVERAGE NET CHANGE PER ALL FIRMS	+.25	+.44	+.53		+.12	-.39	+.02	+.36

a modest change from April (down one percentage point) and June (up one percentage point). The stability suggested no trend in unemployment, though late 1989 declines in current job openings indicated that the unemployment numbers would rise sooner or later.

Most of the current job openings were for skilled labor. Just five percent mentioned at least one opening for unskilled workers, down two percentage points from April. Openings for unskilled workers have typically been in the seven to eight percent range since 1986. This decline in the small business demand for unskilled labor appeared significant. Since unskilled jobs are more sensitive to cyclical variation, they are usually the first to be eliminated.

TABLE 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
YES	21	21	24		23	21	21	20
- SKILLED	14	15	17		15	15	14	15
- UNSKILLED	3	3	3		3	3	3	2
- BOTH	4	3	4		5	3	4	3
NO	78	78	75		77	79	78	79
NO ANSWER	1	1	1		*	*	1	1
TOTAL	100	100	100		100	100	100	100

Expected net changes in the small business labor force is normally a good indicator of employment growth. If that were true in July, the number of employed American should continue to grow marginally throughout the summer and into the fall. Sixteen (16) percent planned to add one or more employees in the next three months (Table 17). The weakness lay in the ten percent who planned net reductions. Seasonally adjusted, July's employment plans represented the third consecutive quarterly decline and the second weakest set of plans since 1986.

Inventories

Small business owners have been very careful handling inventory balances. Net additions have been controlled, satisfaction with balances about the historic average, and, plans for net additions measured. As a result, small businessmen and

TABLE 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASE	16	16	15		16	19	23	16
SAME	75	73	74		73	72	69	72
DECREASE	8	9	10		10	8	6	10
NO ANSWER	1	2	1		1	1	2	2
TOTAL	100	100	100		100	100	100	100

women appear in a relatively good inventory position should a recession strike.

Nineteen (19) percent reported net additions to inventory in the second quarter compared to 16 percent reporting net reductions (Table 18). Those net increases were smaller than the ones recorded in any second quarter since 1986.

TABLE 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
INCREASE	20	21	20		18	16	19	19
SAME	43	45	44		46	43	44	44
DECREASE	16	13	15		16	21	18	16
NOT APPLIC.	19	19	20		19	20	18	20
NO ANSWER	2	2	1		1	*	1	1
TOTAL	100	100	100		100	100	100	100

Increased inventory and weakening sales is a formula certain to give rise to dissatisfaction with current inventory balances.

They did in July, but not to the extent anticipated. Eleven (11) percent reported their inventories were "too large" compared to nine percent who reported them "too small" (Table 19). The resulting net -2 percent was a two percentage point decline from April, but a two percentage point improvement from January. Moreover, the net -2 percent figure approximates the series average. This indicates that small business owners did not possess a large inventory over-hang which could come back to haunt them if sales continue to weaken.

TABLE 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
TOO LARGE	10	12	12		12	13	10	11
ABOUT RIGHT	57	54	55		54	55	58	57
TOO LOW	10	10	10		10	9	10	9
NOT APPLIC.	21	20	19		21	21	18	21
NO ANSWER	2	2	4		3	2	4	2
TOTAL	100	100	100		100	100	100	100

Nineteen (19) percent planned net inventory increases in April and 19 percent reported making them in July. However, just 12 percent planned reductions while 16 percent ended up making them. The pattern is typical. The number expecting increases normally matches the number who report them; the number expecting decreases normally understates the number who eventually make them. In July, 17 percent planned net inventory additions and 13 percent planned net inventory reductions (Table 20). The net number provided the most positive July inventory plans since 1985. Given the experience between plans and outcomes, October inventory changes will probably yield no net increase. Yet, even that level would be high considering sales prospects.

Capital Expenditures

Weaker earnings (see, Earnings) and tightening credit (see, Credit Conditions) were beginning to effect the capital expenditures made by small business owners. For the time being, the primary impact was on plans to make expenditures. Reported outlays did not yet appear seriously affected.

TABLE 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
ADD	17	16	16		16	22	19	17
NO CHANGE	46	45	46		44	43	47	47
DECREASE	14	15	15		17	13	12	13
NOT APPLIC.	20	21	15		17	17	15	17
NO ANSWER	3	3	8		6	5	7	6
TOTAL	100	100	100		100	100	100	100

Fifty-five (55) percent reported one or more capital expenditures in the last six months (Table 21). It was the identical number recorded in April and similar to the numbers reported since the recovery began. The frequency of capital expenditures is a relatively insensitive number making shifts only during major economic changes. So are the frequencies of expenditures made for particular purposes.

Forty-six (46) percent made expenditures for equipment and vehicles (Table 21). The percent making an outlay for this purpose usually varies only a few percentage points, though 1989 was a banner year for them. With real estate problems in various parts of country, small business outlays for new buildings and land should fall. They did. Six percent reported outlays for buildings and three percent for land. These figures do not indicate a free-fall in real estate, but they were smaller than any recently recorded.

The size of capital expenditures showed no noticeable change over the past year. In July, 41 percent reported outlays of $10,000 or less; 78 percent made them of $50,000 or less (Table 22). The percentage were very similar for each quarter since the recession, including 1986.

Planned capital expenditures have been particularly strong since the beginning of 1988. It has been a bright spot for small business, neutralizing other less favorable indicators. The exception was July, 1988, when just 29 percent reported plans to make one or more capital expenditures in the next three to six months. In July, 1990, the number again fell to 29 percent, down three percentage points from April and six from January (Table 23). The decline is inevitable given weak sales (see, Sales), weak earnings (Earnings) and tightening credit (see, Credit Conditions).

TABLE 21

PERCENTAGES MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
ALL TYPES*	55	56	54		56	57	55	55
- EQUIPMENT, VEHICLES	43	44	45		46	48	46	46
- ADDED BUILDINGS	7	7	7		6	5	6	6
- IMPROVED BUILDINGS	16	16	15		16	17	16	16
LAND	4	3	4		4	4	4	3

** percentage of firms making one or more capital expenditures*

TABLE 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNTS EXPENDED ($1,000s)	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
UNDER 1	7	8	4		7	5	7	6
1-4	22	20	18		20	21	21	21
5-9	15	14	13		16	15	14	14
10-19	19	22	24		21	19	20	18
20-49	17	17	20		16	18	19	19
50-99	10	9	9		8	10	9	10
100-499	8	8	11		10	10	9	9
500-999	1	2	*		2	1	1	1
1,000+	1	*	1		*	1	*	1
TOTAL	100	100	100		100	100	100	100

TABLE 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

EXPECT CAPITAL EXPENDITURE	1987 JULY %	1988 JULY %	1989 JULY %		1989 OCT. %	1990 JAN. %	1990 APR. %	1990 JULY %
YES	33	29	31		31	35	32	29
NO	51	57	55		54	50	52	57
DON'T KNOW	12	11	11		12	12	12	11
NO ANSWER	4	3	3		3	3	4	3
TOTAL	100	100	100		100	100	100	100

Index of Small Business Optimism

The Index of Small Business Optimism tumbled to its lowest point since the 1981-82 recession. July's seasonally adjusted index figure fell almost three percent from April (Table 24). Though the "bottom didn't drop out," July's Index fell through the lower bound of the narrow tunnel in which the Index had been bobbing for over five years (Chart 5). The Current Status component of the Index actually rose a little over the quarter. But large losses in the General Expectations and the Spending Plans components sealed the quarter's fate. The Index suggested that the long predicted recession may finally be upon us. If so, it has been a great run - the longest peace time expansion in the nation's history. But don't give up on it just yet. This expansion has made a habit of resurrecting itself just as it is about to be declared dead. Perhaps it has one more miracle left.

Single Most Important Problem

The distribution of problems cited as the single most important has not appreciably changed since the beginning of 1988. Even then the changes only involved two problems. The number citing "Government Regulation(s)/Red Tape" rose about four percent- age points and the number citing "Interest Rates & Financing" fell about the same amount. Over the longer term, there has been a rise in the number citing "Quality of Labor." There has also been a longer term rise in the number pointing to "Other," which from written comments probably means no dominating problem and increasing difficulties with insurance, a problem not listed.

"Taxes" was again cited more frequently as the single most important problem than was any other (Table 25). It has held that position since July, 1983. Twenty-three (23) percent cited

"Taxes," the same percentage as in April.

"Government Regulation(s)/Red Tape" drew the second most frequent number of citations. It was followed by "Poor Sales," "Quality of Labor," "Competition from Large Business," "Cost of Labor," and then "Interest Rates & Financing." Interest Rates & Financing was cited by only seven percent, the same number who cited it as their single most important problem in the last three quarters and three percentage points less than the number who cited it in July, 1989. This ranking did not demonstrate any overwhelming concern with credit conditions (see, Credit Conditions).

TABLE 24

INDEX OF SMALL-BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1987 JULY	1988 JULY	1989 JULY		1989 OCT.	1990 JAN.	1990 APR.	1990 JULY
GENERAL EXPECTATIONS[1]	113.8	109.3	107.8		108.3	109.3	114.4	105.0
CURRENT STATUS[2]	106.3	105.7	106.0		104.0	100.0	101.3	103.0
SPENDING PLANS[3]	114.3	113.0	112.3		112.0	118.3	118.7	113.0
INDEX[4]	111.7	109.3	108.6		108.1	109.2	111.9	106.8
INDEX[5] 1978=100	102.7	100.5	99.8		102.1	100.7	100.8	98.2

1 expected business conditions, climate for expansion, expected real sales volume, expected conditions

2 current job openings, current inventory satisfaction, change in net earnings

3 plans to hire, make capital expenditures, add to inventories

4 index numbers

5 seasonally adjusted

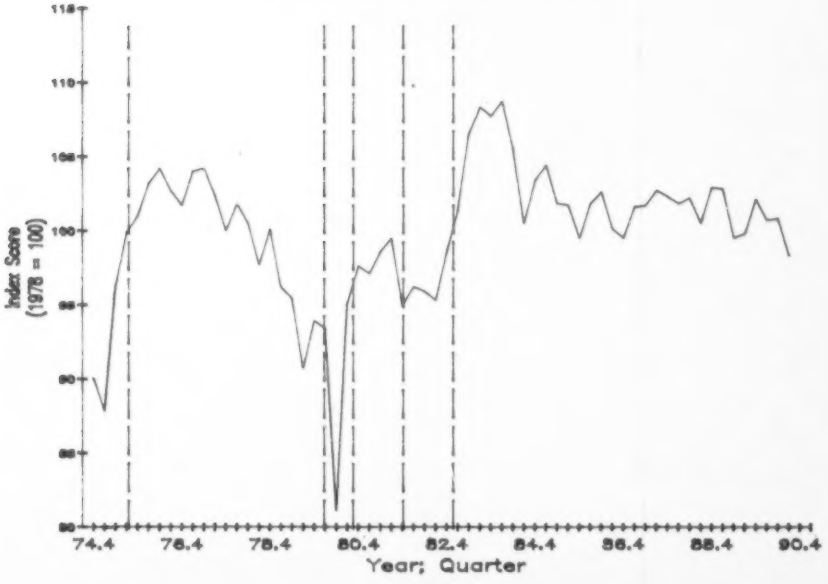
Regional Conditions

Regional differences in credit availability virtually mirrored regional differences in optimism (see, Credit Conditions). The regional Indices of Small Business Optimism tended to improve the farther west the region was located. The most pessimistic regional index was produced by small business owners in New England, 10 percent below the national average (Chart 6). Mid-Atlantic owners

produced the second lowest regional index score and those in the South Atlantic followed (Chart 6). Indices from the central part of the country approximated the national average. Regions included were: the East South Central, Great Lakes, and the West South Central (Chart 7). Owners in three western regions were the most optimistic. The highest index for the ninth consecutive quarter was found in the Pacific region (Chart 8).

CHART 5

INDEX OF SMALL BUSINESS OPTIMISM



Owners in six of the nine regions produced indices lower than they did in July one year ago. The declines were led by the Mid-Atlantic region (8%), New England (7%) and the Great Lakes (5%). The smallest decline was recorded in the Pacific (1%). The three regions where indices in July, 1990, were higher than in July, 1989, were found in areas which have recently been struggling. The largest year over year gain was in the Plains (4%). The Mountain region followed (2%) and the West South Central region (Arkansas, Louisiana, Oklahoma and Texas) was the third (1%).

Over the last three months, however, index scores dropped in every region but one. Most of the declines were relatively small - about one to two percent. They were larger in the Pacific and Mountain regions. The Plains was the only region where the Index rose from April (seasonally adjusted).

TABLE 25

SINGLE MOST IMPORTANT PROBLEM

SINGLE MOST IMPORTANT PROBLEM	1989 OCT RANK	OCT %	1990 JAN RANK	JAN %	1990 APR RANK	APR %	1990 JULY RANK	JULY %
TAXES	1	22	1	22	1	23	1	23
INFLATION	8	4	8	4	8	4	8	4
POOR SALES	3	11	3	11	3	10	3	11
INTEREST RATES & FINANCING	6	7	6	7	6	7	7	7
COST OF LABOR	7	6	6	7	6	7	6	8
GOVT. REG(S)/ RED TAPE	2	17	2	18	2	18	2	18
COMPETITION/ LARGE BUS.	3	11	4	10	4	9	5	9
LABOR QUALITY	3	11	4	10	4	9	4	10
SHORTAGE OF FUEL, MATERIAL	9	*	9	*	9	*	9	*
OTHER;N/A	-	11	-	11	-	13	-	10
TOTAL	-	100	-	100	-	100	-	100

The relative fortunes of small business owners in the regions continued to change rapidly. For the first time since 1979, the Index of the Plains states in July was above the national average. The Index of the West South Central region was above the national average for only the third time since early 1985. Relative improvements in other regions have not been as dramatic. Since the national Index of Small Business Optimism is relatively low, above average regional performance cannot be considered prosperity. But it does indicate less overall slide and in the case of the Plains, an absolute improvement.

There are also regions which are performing relatively, as well as absolutely, less well. The eastern seaboard leads the way. New England's small business owners are in a recession. Those in the Mid-Atlantic region may be, too. The region which has received comparatively little attention has been the South Atlantic. In April, its Index fell below the national average for the first time since 1982. In July, the region's Index slipped even farther below the national norm.

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
AS A PERCENTAGE OF THE NATIONAL INDEX

CHART 6
NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS

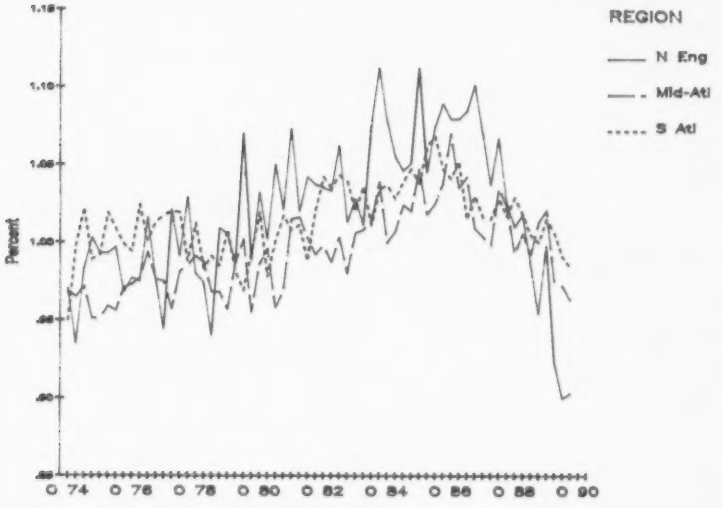


CHART 7
GREAT LAKES, EAST SOUTH CENTRAL, PLAINS, REGIONS

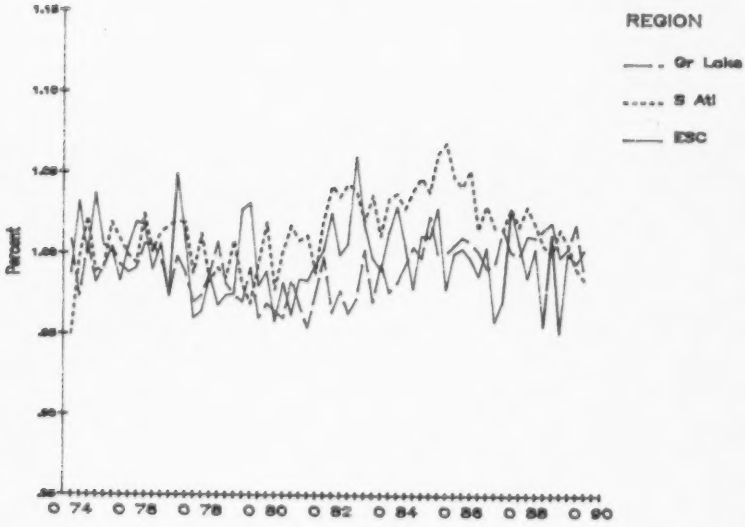
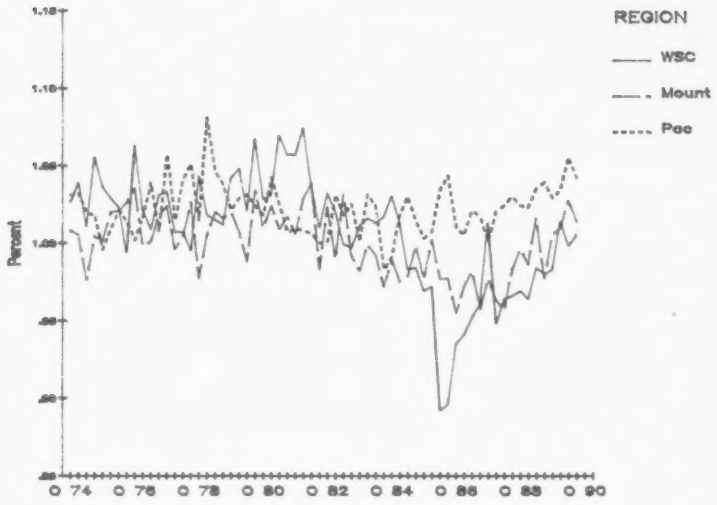


CHART 8

WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS



APPENDIX

Table A-1
Description of Industry Classification

Industry	Industry Examples
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, highway & bridge, etc.)
Manufacturing	(Including dairy processor, printer, publisher, machine shop, oil field service)
(mining)	
Transportation	Truckers, movers, warehouse, travel agent,
(communication)	broadcasters, public utilities
Wholesale	(Including manufacturer's representative, grain elevator, distributors)
Retail	(Including service station, restaurant, bar, clothing store, flower shop, appliance store)
Agriculture	Veterinarian, forestry, fisheries, nursery
Financial Services	Finance, insurance, real estate
Nonprofessional	Beauty salon, garage, motel, repair service,
Services	bookkeeper, photographer, funeral director, credit bureau, laundry
Professional	Physician, dentist, engineer, architect,
Services	accountant, nursing home operator, lawyer

Table A-2
Definition of Regions

Region	States
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
Great Lakes	Illinois, Indiana, Michigan, Ohio, Wisconsin
Plains	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia (includes Washington, DC)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

Table A-3
Profile of Respondents

Industry	Percent	Number
Construction	14	294
Manufacturing	14	296
Transportation/Communication	3	72
Wholesale	6	134
Retail	29	614
Agriculture	5	117
Financial Services	7	156
Nonprofessional Services	15	312
Professional Services	7	161
No Answer	*	2
Total	100	2158

Employee Size	Percent	Number
1 - 2	15	325
3 - 5	28	607
6 - 9	19	411
10 - 14	13	274
15 - 19	6	141
20 - 39	9	205
40 or More	8	178
No Answer	*	17
Total	100	2158

Region	Percent	Number
New England	5	113
Mid-Atlantic	11	230
South Atlantic	12	264
Great Lakes	18	388
East South Central	4	98
West South Central	11	227
Plains	13	282
Mountain	8	181
Pacific	17	375
Total	100	2158

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks.

1. What is your form of business organization?

   [1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity,] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

   [1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, **etc.**)
   [2] Manufacturing and mining (including dairy processor, printer, publisher, **etc.**)
   [3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, **etc.**)
   [4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., **etc.**) 2
   [5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, **etc.**)
   [6] Agriculture, veterinarian, forestry, landscaping, fisheries, **etc.**
   [7] Financial, insurance, real estate, bank, savings & loan, **etc.**
   [8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, **etc.**
   [9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, **etc.**
   [10] Other (please describe)_____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

   [1] Taxes [4] Interest rates & financing [8] Quality of labor
   [2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods 3
   [3] Poor sales [6] Government regulation(s) & red tape [0] Other_____
   [7] Competition from large businesses (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

   [1] Yes [2] No [3] Uncertain 4

   4a. Why? (Circle **ONE** answer—***most important reason***)

   [1] Economic conditions [3] Financing & interest rates [5] Other_____ 5
   [2] Sales prospects [4] Cost of expansion (please explain)

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

   [1] Much better [3] About the same [5] Much worse 6
   [2] Somewhat better [4] Somewhat worse [6] Don't know

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

   [1] Under $12,500 [3] $25,000–49,999 [5] $87,500–199,999 [7] $375,000–749,999 7
   [2] $12,500–24,999 [4] $50,000–87,499 [6] $200,000–374,999 [8] $750,000 or more

   6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

   6b. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 9
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

   7a. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 11
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your average selling prices now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have full and part-time ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any job openings that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If increase or decrease, by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles:	[1] Yes	36
Additional Buildings:	[1] Yes	37
Improved Buildings:	[1] Yes	38
Additional Land:	[1] Yes	39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000–19,999 [7] $100,000–499,999 40
[2] $1,000–4,999 [5] $20,000–49,999 [8] $500,000–999,999
[3] $5,000–9,999 [6] $50,000–99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1–2% [3] 5–6% [5] 9–10% [7] Don't know 43
[2] 3–4% [4] 7–8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1–2% [3] 5–6% [5] 9–10% 45
[2] 3–4% [4] 7–8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)